DURHAM
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CITY OF MEDICINE

CITY OF DURHAM | NORTH CAROLINA

**Date:** August 2, 2011

**To:** Thomas J. Bonfield, City Manager
**Through:** Keith Chadwell, Deputy City Manager
City Manager's Office
**From:** Mike Barros, Director
Department of Community Development
**Subject:** DCD Loan Portfolio Semi-Annual Report
January 1, 2011 through June 30, 2011

**Executive Summary**

The primary objective of the Department of Community Development's (DCD) management of the loan portfolio is to assist borrowers in the retention of their properties while preserving the City's investment. Since many of the DCD's programs are funded through repayment and interest income, it is important that the delinquency rate remain low and that the City's loans be repaid.

This report provides a summary of the DCD's loan portfolio for the second half of Fiscal Year 2011 (S2 FY11). Included in this report is a breakdown of the portfolio by loan type and funding source, remittance summary, delinquency rates, and foreclosure activity. Also included are accomplishments for S2 FY11 and goals for the first half of the new fiscal year.

The DCD reports the S2 FY11 overall delinquency rate at 13.7%, (98) loans, which is lower than the S1 FY11 number of (102) loans at 14.6%. The delinquency rate for S2 FY10 was 14.6% and for S2 FY09 the rate was 13.0%.

**Recommendation**

The DCD recommends that the City Council receive this semi-annual report on the Community Development loan portfolio.

**Background**

The City of Durham has offered community development loans for affordable housing, homeownership, home rehabilitation, and rental housing for more than twenty years.

**Issues and Analysis**

As of June 30, 2011, there were 820 active loans. This includes 704 amortized loans, 84 annual reduction loans that are reduced yearly on behalf of the homeowner who is in compliance with current tax payments, insurance coverage and property maintenance, twenty-seven (27) deferred Developer loans and five (5) Economic Development loans.

| Table 1: Total Loan Portfolio, By Project Name, as at June 30, 2011 | | | | |
|---|---|---|---|---|
| **Project Name** | **# of Loans** | **% of Loans** | **Principal Balance** | **% of Principal Balance** |
| **Developer Loans** | **82** | **10.0%** | **$17,557,637.40** | **57.6%** |
| HOME | 44 | | 4,836,498.44 | |
| CDBG | 6 | | 2,662,531.37 | |
| Bond | 30 | | 9,493,607.59 | |
| General Fund | 2 | | 565,000.00 | |
| **Individual Loans** | **514** | **62.7%** | **$8,462,796.24** | **27.8%** |
| HOME | 154 | | 2,764,181.32 | |
| CDBG | 43 | | 1,025,559.18 | |
| Bond | 317 | | 4,673,055.74 | |
| **Habitat** | **134** | **16.3%** | **$2,332,864.22** | **7.7%** |
| HOME | 80 | | 1,438,849.97 | |
| CDBG | 26 | | 488,108.56 | |
| Bond | 28 | | 405,905.69 | |
| **Annual Reduction** | **85** | **10.4%** | **$1,875,351.11** | **6.2%** |
| **Economic Development** | **5** | **0.6%** | **$237,037.97** | **0.8%** |
| **TOTAL** | **820** | 100.0% | **$30,465,686.94** | 100.0% |

During S2 FY11, twenty-four (24) loans were set-up with a total original principal balance of $646,780.87. Fifty-eight (58) new loans have been set-up for FY11 with a total original principal balance of $3,649,298.96.

| Table 2: Loans Set Up for Servicing for S2 FY11 | | | | |
|---|---|---|---|---|
| **Project Name** | **# of Loans** | **% of Loans** | **Principal Balance** | **% of Principal Balance** |
| **Developer** | **3** | **12.5%** | **$153,764.30** | **23.8%** |
| HOME | 3 | | 153,764.30 | |
| CDBG | | | | |
| Bond | | | | |
| General Fund | | | | |
| **Individual Loans** | **7** | **29.2%** | **$140,811.57** | **21.8%** |
| HOME | 5 | | 100,959.41 | |
| CDBG | 2 | | 39,852.16 | |
| Bond | | | | |
| **Habitat** | **11** | **45.8%** | **$220,000.00** | **34.0%** |
| HOME | 9 | | 180,000.00 | |
| CDBG | 2 | | 40,000.00 | |
| Bond | | | | |
| **Annual Reduction** | **3** | **12.5%** | **$132,205.00** | **20.4%** |
| **Economic Development** | | | | |
| **Total** | **24** | **100.0%** | **$646,780.87** | **100.0%** |

During S2 FY11, twenty-one (21) accounts were closed. Of these, six (6) reached the end of the ten year forgiveness period and fifteen (15) were paid off. There were no accounts closed due to foreclosure by the first mortgage. Forty-six (46) accounts have been closed during FY11.

## Remittance

The remittance is detailed in Table 3. For S2 FY11, borrowers remitted a total of $897,629.43. Of that total, $782,236.40 was applied as principal, $111,356.45 was applied as interest, and $4,036.58 was applied as late fees. The number of borrowers submitting late fees was 243.

**Table 3: Remittance for S2 FY11**

| Project Name | Total Remitted | % of total Remitted | Principal | % of Principal | Interest | %of Interest | Late Fee | %of Late Fee |
|---|---|---|---|---|---|---|---|---|
| **Developer Loans** | **$304,487.88** | **33.9%** | **$269,231.67** | **34.4%** | **$34,193.22** | **30.7%** | **$1,062.99** | **26.3%** |
| HOME | 41,204.49 | | 27,683.89 | | 13,510.73 | | 9.87 | |
| CDBG | 15,636.03 | | 10,567.92 | | 4,624.47 | | 443.64 | |
| Bond | 247,647.36 | | 230,979.86 | | 16,058.02 | | 609.48 | |
| **General Fund Individual Loans** | **$476,179.96** | **53.0%** | **$402,236.78** | **51.4%** | **$70,969.59** | **63.7%** | **$2,973.59** | **73.7%** |
| HOME | 189,500.14 | | 160,114.38 | | 28,561.92 | | 823.84 | |
| CDBG | 31,400.39 | | 21,351.92 | | 9,790.85 | | 257.62 | |
| Bond | 255,279.43 | | 220,770.48 | | 32,616.82 | | 1,892.13 | |
| **Habitat** | **$49,502.88** | **5.5%** | **$49,502.88** | **6.3%** | | | | |
| HOME | 25,807.32 | | 25,807.32 | | | | | |
| CDBG | 8,445.12 | | 8,445.12 | | | | | |
| Bond | 15,250.44 | | 15,250.44 | | | | | |
| **Annual Reduction** | **$42,921.08** | **4.8%** | **$42,740.41** | **5.5%** | **$180.67** | **0.2%** | | |
| **Economic Development** | **$24,537.63** | **2.7%** | **$18,524.66** | **2.4%** | **$6,012.97** | **5.4%** | | |
| **Total** | **$897,629.43** | **100.0%** | **$782,236.40** | **100.0%** | **$111,356.45** | **100.0%** | **$4,036.58** | **100.0%** |

## Deferred Loans

As at June 30, 2011, there were 111 deferred loans accounting for 34% of the principal balance of the portfolio. There are two types of deferred loans: 1) annual reduction loans that are forgiven, and 2) loans that do not require payments until a future date.

**Table 4: Deferred Loans, By Project Name, as of June 30, 2011**

| Project Name | # of Loans | %of loans | Principal Balance | % of Principal Balance |
|---|---|---|---|---|
| **Developer Loans** | **27** | **24.3%** | **$8,630,098.16** | **82.43%** |
| HOME | 10 | | 2,212,881.10 | |
| CDBG | 2 | | 2,278,750.00 | |
| Bond | 13 | | 3,573,467.06 | |
| General Fund | 2 | | 565,000.00 | |
| **Annual Reduction** | **84** | **75.7%** | **$1,839,476.52** | **17.57%** |
| **TOTAL** | **111** | **100%** | **$10,469,574.68** | **100%** |

*Note: Downtown & Commercial Revitalization and Opportunity Loans are not included above*

### Amortizing Loans
A majority of the portfolio, 704 loans accounting for 85.8% of the number of loans and 66.2% of the original amount loaned, consists of amortizing loans.

**Table 5: Amortizing Loans, By Project Name, as of June 30, 2011**

| Project Name | # of Loans | % of Loans | Principal Balance | % of Principal Balance |
|---|---|---|---|---|
| **Developer Loans** | **55** | **7.8%** | **$8,927,539.24** | **51.2%** |
| HOME | 34 | | 2,623,617.34 | |
| CDBG | 4 | | 383,781.37 | |
| Bond | 17 | | 5,920,140.53 | |
| General Fund | | | | |
| **Individual Loans** | **515** | **73.2%** | **$8,498,670.83** | **48.7%** |
| HOME | 155 | | 2,800,055.91 | |
| CDBG | 43 | | 1,025,559.18 | |
| Bond | 317 | | 4,673,055.74 | |
| **Habitat** | **134** | **19.0%** | **$8,500.50** | |
| HOME | 80 | | 4,514.20 | |
| CDBG | 26 | | 1,444.56 | |
| Bond | 28 | | 2,541.74 | |
| **TOTAL** | **704** | **100.0%** | **$17,434,710.57** | **100.0%** |

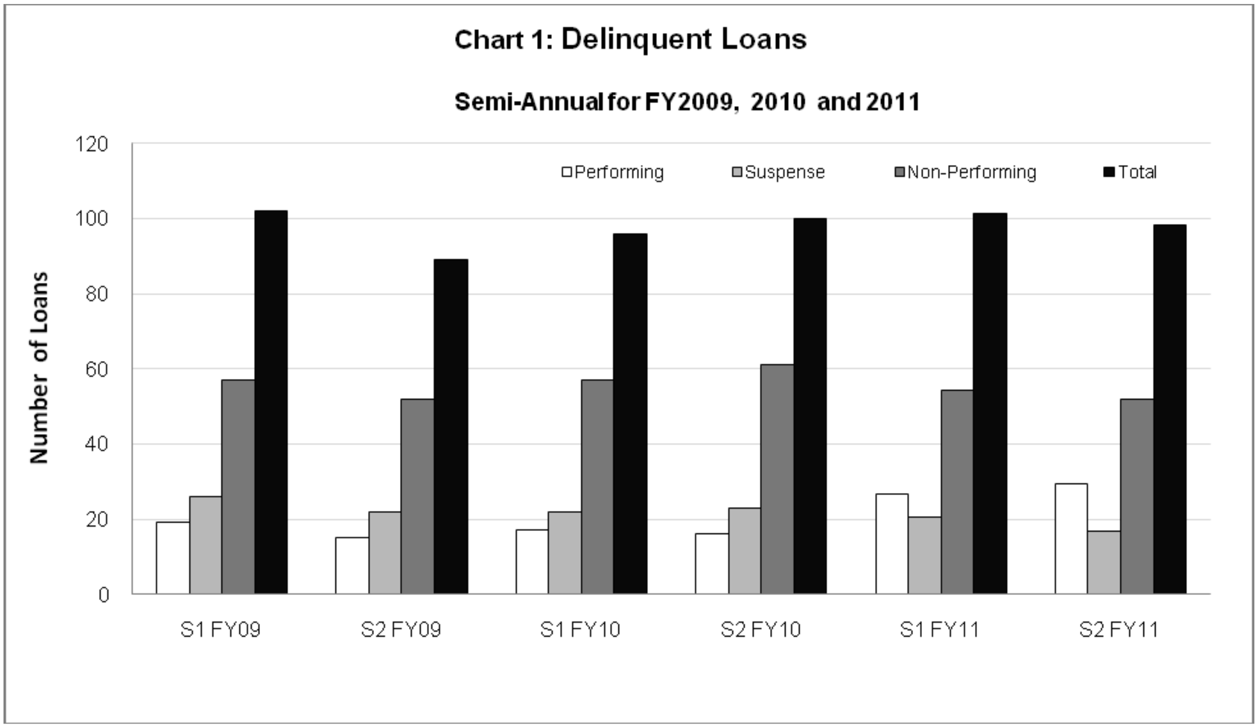
### Summary of Issues

### Delinquencies
The main focus on the loan portfolio management continues to be the delinquency rate, which is the percentage of amortizing loans that are thirty (30) days or more past due. The DCD will continue its efforts in lowering the total delinquency rate.

The DCD is working to reduce the number of loans that are ninety (90) days or more past due. Staff has been successful in contacting several seriously delinquent borrowers and is working with them to bring their loans current. Borrowers continue to call the DCD as a result of stronger delinquency letters and are working to bring their loans current. A thorough analysis of income and expenses is considered before offering an alternate payment plan to the borrower. The City's Loan Service Provider, AmeriNational, is also assisting the DCD with loan modifications for qualified delinquent borrowers.

The DCD has worked to minimize the impact of economic conditions on the loan portfolio by offering workshops to borrowers on topics such as preventing foreclosures and budgeting. All borrowers are required to attend a homebuyers' workshop through a non-profit agency such as Durham Regional Financial Center and Durham Affordable Housing Coalition before the loan closes. One-on-one financial counseling is a requirement as well before closing.

The total delinquency rate for S2 FY11 is lower at 13.7% (98 loans) than SFY1 2011 which was 14.6% (102) loans. The portfolio historically performs better in the second half of the year. One main reason for the decline in delinquent borrowers may be that borrowers use their tax refunds to bring their accounts current. Additionally, some borrowers have reported going back to work or are currently working overtime. The rate between SFY2 2009 and SFY2 2010 increased 1.6%, from 13.0% to 14.6%.

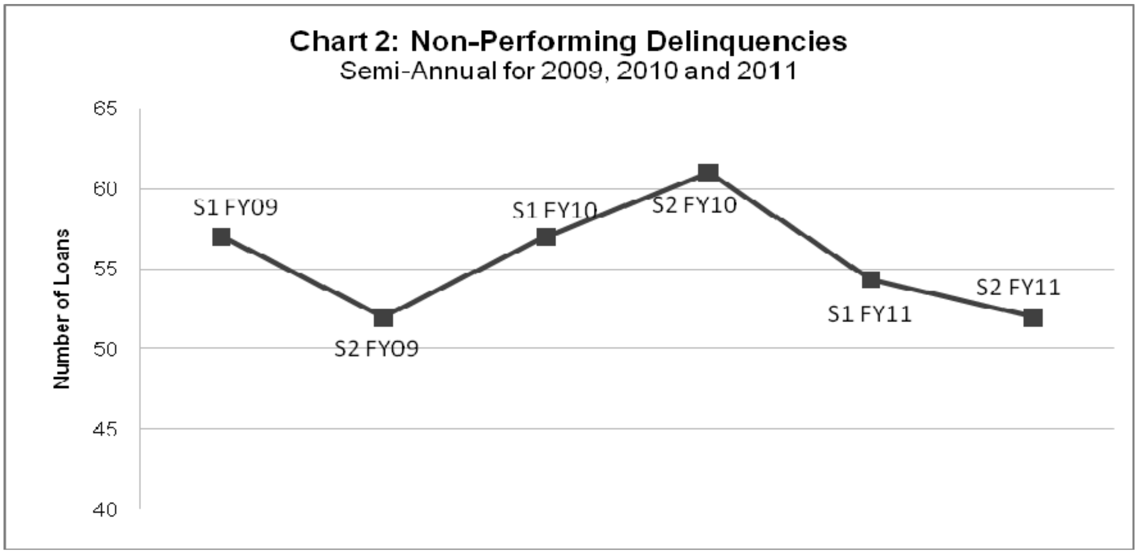



Delinquencies are grouped into three categories:

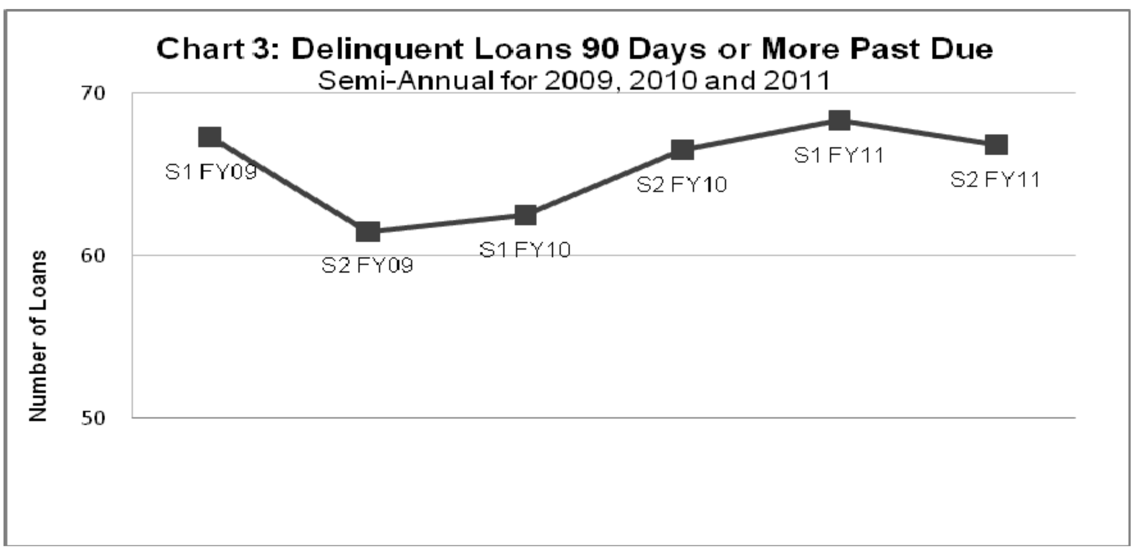
***1. Performing Delinquencies:*** These borrowers are making timely payments on their delinquent loans or have entered into repayment plans. The performing delinquency rate in FY11 is relatively the same between S1 and S2 with 29 loans and 27 loans respectively, with a rate of 3.8% of amortized loans. As a result of the DCD offering default/delinquency counseling, several seriously delinquent borrowers have begun to pay their loans, therefore increasing the percentage of timely payments.

***2. Suspense Delinquencies:*** These borrowers have filed for protection under the Chapter 7 or 13 Bankruptcy Code and by law cannot be contacted. Suspense delinquencies decreased during S2 FY11 (2.4% or 17 loans) from SFY1 2011's rate of 3.0% (21 loans).

***3. Non-Performing Delinquencies*****:** These are borrowers that are more than 30 days past due and are non-responsive to our delinquency notices. During S2 FY11, this rate decreased to 7.4% (52 loans) from 7.8% (54 loans) in SFY1 2011, therefore, bringing the overall delinquency rate down. See Chart 2.




During S2 FY11, the total number of delinquencies for loans that are 90 days or more past due was 67 loans. This rate is slightly lower than the SFY1 2011 rate of 68 loans. See Chart 3.




During S2 FY11, 68.1% (67 loans) of the total delinquencies fell into this category. A number of these borrowers are currently working with default/delinquency counselors and AmeriNational. The DCD continues to work through delinquency/default counseling with these borrowers in an effort to work-out repayment plans and/or loan modifications.

The DCD continued mailing past due reminder notices. The sixty-day reminders include a referral to work directly with AmeriNational and offer the borrower an opportunity to contact the DCD for further loan counseling. Many borrowers have been responsive to the City's mailings, and these efforts have been successful in connecting borrowers with default/delinquency counseling.

**Foreclosures**
During S2 FY11, the DCD did not initiate foreclosure on any properties in the portfolio and had no write-offs due to foreclosure by the first mortgage lender. In the case of foreclosure, before a loan is written-off, the DCD conducts a feasibility analysis to determine whether the cost of paying off the first lien holder, rehabilitating the house, insuring the property, and marketing and selling the property would be greater than the write-off amount.

**Accomplishments for S2 FY11**
1. Borrowers are becoming more responsive to delinquency mailings when given an option to speak with someone in the DCD regarding their loan before referring them to AmeriNational Community Services for further assistance.
2. DCD staff continued education in Housing Counseling recognized by HUD.

**Goals for S1 FY12**
During the first semi-annual period of FY2012, the DCD will:
1. Continue annual compliance monitoring.
2. Continue to monitor tax records and, when possible, monitor first mortgage loans to detect borrowers in danger of foreclosure.
3. Work to reduce delinquency rate.
4. Continue cleaning-up payment histories.
5. Develop an in-house loan portfolio module to assist long term consistency.

**Alternatives**
Not applicable

**Financial Impact**
Not applicable

**SDBE Summary**
Not applicable

**Attachments**
Not applicable

Cc: Robert Wade, Business Services Manager, DCD
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